Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Ducheny	Analyst:	Nicole Kwon	Bill Number:	SB 6
Related Bills:	See Legislative History	Telephone:	845-7800	Introduced Date:	12/06/04
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Designation Period May Total 20 Years

SUMMARY

This bill would allow all enterprise zones (EZ) to be designated as an EZ for 20 years if certain criteria are met.

PURPOSE OF THE BILL

It appears that the purpose of the bill is to allow EZs designated after 1990 to be eligible to have the EZ designation period extended and continue the incentives offered in EZs if certain specified conditions are satisfied.

EFFECTIVE/OPERATIVE DATE

As introduced, this bill is an urgency statute and would be effective and operative immediately .

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Under the Government Code, existing state law allows the governing body of a city or county or a city and county to apply for designation as an EZ. Using specified criteria, the Department of Housing and Community Development (DHCD) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years. Currently, 39 of the authorized 42 EZs have been designated.

Board Position:			Department Director	Date
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An EZ designated before 1990 may have its designation period extended to 20 years if it meets both of the following requirements:

- The EZ received a superior or passing audit grade from the responsible agency.
- An updated economic development plan was submitted to the responsible agency that justified the additional five-year designation period.

This extension does not apply to EZ's designated after 1990.

Under the Revenue & Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within the EZ. These incentives include a sales or use tax credit, a hiring credit, a business expense deduction, a net interest deduction, and a tax credit for employees working in an EZ.

THIS BILL

This bill would extend the designation period for EZs if they meet specified criteria. As a result, EZs, including those EZs that were created after 1990 with a designation of only 15 years, would be eligible to have the designation period extended an additional five years for a total designation period of 20 years.

Based on information from DHCD, the following EZs would be eligible for the extended designation period: Altadena/Pasadena (April 1992); Antelope Valley (February 1997); Coachella Valley (November 1991); Delano (December 1991); Kings County (June 1993); Lindsay (October 1995); Long Beach (January 1992); Merced/Atwater (December 1991); Oakland (September 1993); Oroville (November 1991); Richmond (March 1992); Army Depot (Sacramento) (October 1994); San Ysidro/Otay Mesa (January 1992); San Francisco (May 1992); Santa Ana (June 1993); Shafter (October 1995); Shasta Metro Redding/Anderson (November 1991); Shasta Valley Siskiyou County (June 1993); Stockton (June 1993); and Watsonville (May 1997).

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 708 (Correa, 2003/04), SB 172 (Ducheny, 2003/2004), SB 1179 (Ducheny, 2003/2004), and AB 1846 (Correa, 2001/2002) were identical to this bill. AB 708 and SB 172 failed to pass out of the first house by January 31 of the second year of the session. SB 1179 was held in Senate Appropriations. AB 1846 failed to pass out of the Senate Revenue & Taxation Committee.

AB 516 (Matthews, 2003/2004) would have expanded EZs eligible for the 20-year designation period to include an EZ located in a rural area after 1990. This bill failed to pass out of the first house by January 31 of the second year of the session.

OTHER STATES' INFORMATION

Florida has 51 state enterprise zones that are designated until December 31, 2005. The Florida Legislature will determine at that time if the program should continue as is, continue but with modifications, or be completely repealed.

Illinois has 93 enterprise zones, *Michigan* has 33 Renaissance Zones, and *New York* has 71 empire zones. Each of these states' designated zones does not appear to have an expiration date.

The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue Losses for Fiscal Years SB 6 as introduced December 6, 2004 Enterprise Zone Extensions ($ Millions)			
2006/2007	2007/2008	2008/2009	2009/2010
-5	-55	-68	-88

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses for the extension of EZ designations would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits under zone continuations.

Under this bill, 20 of the 39 zones would be eligible for the five-year extension. By 2007, ten EZs that were designated after 1990, including four of the most utilized EZs in the program – Long Beach, San Francisco, Oakland, and Richmond, would be extended under this bill. Based on prior year actual data, these zones would produce a revenue impact of $60 million in 2007, the first full extension year after allowing for unused tax credits and net operating losses (NOL's) that would be claimed under current law. A portion of this loss would occur as reduced estimated tax payments over the first half of 2007, $5 million is projected for 2006-07, for calendar year filers.

In fiscal year 2008/09, the loss is estimated at an additional $68 million because another five EZs would be extended in addition to the first ten EZs that would continue to benefit from the tax incentives for zone businesses. In 2009/10, another five EZs would be extended in addition to the 15 EZs that would be utilizing the maximum benefits of the tax incentives by this fiscal year.

This analysis takes into account the current law provision that allows for the establishment of new zones for each expired zone. The creation of new zones typically encompasses a significant time-line before actual certifications are issued and tax benefits are reported on returns filed by eligible businesses.

LEGISLATIVE STAFF CONTACT

Nicole Kwon	Brian Putler
Franchise Tax Board	Franchise Tax Board
845-7800	845-6333
haeyoung.kwon@ftb.ca.gov	brian.putler@ftb.ca.gov